

Will the world recession return African economies to their knees? Not if China has anything to do with it. This is one friendship that stands to flourish through the hard times. By *Richard Dowden*

# Lives on the line

Since the millennium, parts of Africa had begun to look more first world than third world. Images of a starving, suffering, war-torn continent were being edged aside by new pictures of shiny office blocks and rush-hour traffic jams. But just as economies in Africa began to show signs of growth – many of them for the first time in three decades – the world was hit by a recession. Investment was withdrawn, demand for exports dived, and remittances sent home by the African diaspora dried up. According to the International Monetary Fund, 15 of the 21 most vulnerable economies in the world are in sub-Saharan Africa.

Until the financial crisis hit Africa towards the end of 2008, the continent's economies had grown at roughly 5 per cent a year on average for four years. Africa was no longer the slowest-growing continent in the world. With debts written off and inflation under control, some former African "basket cases" became profitable places to invest. And it wasn't just oil exporters that were benefiting. Ethiopia, an oil importer which pays heavily for fuel, managed annual growth of about 10 per cent for four years. The continent as a whole was growing faster than Latin America or Europe – and at a rate high enough to keep ahead of its steadily rising population.

For a while, it was thought that Africa might escape the recession. Last year, the IMF revised growth projections in the rest of the world downwards to 3 per cent, but kept Africa's projected rate at 6 per cent. Africa seemed distanced enough from the gambling of western banks and their bad debts not to be dragged down by them. The demand for raw materials from China and other emerging economies would help to carry the continent through, it was suggested, while domestic demand remained strong in many countries, particularly those producing oil.

Yet the world is now too interconnected. America sneezed and Africa is back in casualty. The continent's growth rate is predicted to be just 1 per cent this year – lower, crucially, than the population growth rate of roughly 3 per cent.

The African people would be justified in feeling bitter. In the 1980s and early 1990s, their continent was caught in a vicious downward cycle, shunned by investors because of political instability, weak laws, huge debts and poor infrastructure. In the late 1990s, however, investment began to flow back. This was mostly a product of China's demand for Africa's raw materials, but partly attributable to countries reforming and opening up their economies under pressure from western governments. Now the same countries that lectured Africa about ►





**Quid pro quo: African leaders granted mining and other concessions to China in return for cheap loans and infrastructure, built by state-owned Chinese companies. (Below) a Chinese worker on new tracks in Angola**



PER-ANDERS PETTERSSON/CETTY IMAGES



# South Africa: the enemy within by Dianna Games

The close relationship between South Africa's new president, Jacob Zuma, and the country's powerful trade unions had the private sector and investors worried. Would the payback for union support of his campaign, which helped sweep him to victory in April, be a leap to the left for a carefully charted, investor-friendly economic policy? Would there be rampant state spending to appease poorer sections of the population, for which Zuma's promise of poverty alleviation was the answer to their prayers?

Certainly Zuma has appointed leading members of the trade union federation Cosatu and the South African Communist Party to critical roles in cabinet. There is talk of a social security net, a national health system and half a million new jobs, while youth leaders call for free schooling for all as "payment" for supporting Zuma's election campaign. What all the plans do not detail, however, is how they will be funded.

Heightened expectations are a potential time bomb for the new government. Already the relationship with the trade unions is not as cosy as many imagined it might be. Following a spate of wage strikes since the poll, Zuma challenged labour at a high-level African business summit in June: "Can you, while you have this economic crisis, find an opportunity to have more strikes? Are they not exacerbating the issue?" He said the country was in an abnormal situation and it needed to apply extraordinary measures to meet the challenge.

Although South Africa has not experienced the worst of the world financial crisis because of strict regulations governing the domestic financial sector, important elements of its economy – manufacturing and mining – have been badly affected by the contraction in global markets and low commodity prices. Mining has been hit further by power shortages, following poor planning

by the state utility Eskom over a decade, exacerbated by strong economic growth. Early last year, Eskom said it had insufficient power to keep the country's lights on without huge cutbacks. The mines sector was in the front line for cuts, and so mining companies were unable to take advantage of high commodity prices during 2008.

After two quarters of negative growth – a 1.8 per cent contraction in the last quarter of 2008 and a sharp, 6.4 per cent quarter-on-quarter contraction in the first part of 2009 – South Africa has accepted that it is in its first recession for 17 years. GDP is projected to be just 1.1 per cent in 2009, down from more than 3 per cent in 2008 and 5.1 per cent in 2007. Consumer spending and house prices are down, job losses are up.

The economy has, however, been given a big boost by the South African government's four-year (2006-2010) infrastructure building programme, worth \$60bn, and covering roads, rail, water, power, ports and petroleum pipelines. It includes a budget of \$2bn specifically for spending on the 2010 football World Cup.

There have been rumblings about Zuma's expanded cabinet. However, the president has promised better delivery and consequences for non-performance of state officials. Private-sector concerns have been tempered by the retention of the former finance minister Trevor Manuel, who now runs a powerful new planning ministry. He has been replaced by the highly effective former tax revenue chief Pravin Gordhan, whose appointment has also been welcomed.

Zuma's new government still has much goodwill behind it, but it faces a difficult balancing act: between alleviating poverty and delivering services, and keeping the economy afloat in tough economic times. ●

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**Jacob Zuma: big promises**

► proper regulation and debt management have failed to follow their own prescription – and Africa is feeling the pain. Investors are withdrawing not because of any risk or weakness in Africa's economies, but because of panic at home. It gets worse. When African economies were close to collapse and people were starving, western governments militated against state interference. The market must take its course, they said. Nations that were forced to sell off state-owned assets, or let them go under, today watch as western governments nationalise or subsidise their own failing banks.

Will the gains of Africa's economic revival be completely lost? The growth was only partly stimulated by western donors. Much more important was China's move into Africa, probably the most significant geostrategic shift so far in the 21st century. The Chinese demand for raw materials in vast quantities pushed prices to record levels. African rulers granted long-term mining and oil concessions in return for cheap loans and new infrastructure built by state-owned Chinese companies. These large companies were followed by thousands of small businesses and families that came to make a life in Africa by importing Chinese goods or trading African commodities. Between 2000 and 2008, Chinese trade with Africa leapt from \$10.6bn to \$106.84bn.

But just as China was the main driver of Africa's growth, so it is now an indirect cause of the continent's steep decline. The ultimate consumers of Africa's raw materials were mainly in western countries; China was simply the processor. As world demand for Chinese products declined, so did China's demand for Africa's resources. Several mines have been put on hold and deals are now being implemented slowly.

Other sources of funding have also dried up. The World Bank estimates that no less than \$12bn was sent or taken back to sub-Saharan Africa in 2007 (and the actual figure could be twice that); this is expected to drop in 2010 as Africans in Europe and America, often at the bottom of the job pile, cut back support for their families at home. In Kenya early this year, such remittances declined by 27 per cent. Aid, too, may fall – or at least not grow as promised. At the G8 summit at Gleneagles in 2005, western governments promised to double aid to Africa, raising it to \$50bn by 2010, but these countries may now feel too poor to meet their commitment. France

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and Italy have been singled out for failing to keep to their targets, but discrepancies between what is pledged, spent and delivered are widespread.

Economies across Africa are being hit hard. The biggest, South Africa, is suffering its first recession in almost two decades, and up to half a million jobs have been lost. Botswana – Africa's small success story – is also in recession. It has closed its diamond mines and sought a \$1.5bn loan from the African Development Bank. Mauritius, which found a niche with new industries and as a producer of textiles, is seeking a £500m loan. Nigeria's oil-based economy may be strong in the medium term, but it has suffered a haemorrhage of capital and its vibrant stock market has collapsed. Growth reached 10 per cent in 2003, but is estimated to fall below 3 per cent next year. The education budget has been cut by 16 per cent, the health budget by 29 per cent. Earnings from Kenya's crucial flower exports have dropped by 35 per cent, leading to the loss of 1,200 jobs. Its lucrative tourism industry has also been hit (although this may in part be a result of the violence that followed elections at the end of 2007).

Aside from long-term deals with China, African governments will find it hard to borrow in order to finance much-needed infrastructure or to fund short-term deficits. Ghana, Uganda and Kenya have put planned bond issues on hold. South Africa is facing a budget deficit after



**The other side of growth: sprawling slums on the outskirts of Nairobi. The urban poor could decide the direction of Africa's political and economic development**

predicting a surplus for 2009-2010. Governments that do borrow to make up deficits risk rekindling inflation – and for the unprotected poor, inflation is a killer.

However, the picture is not one of uniform or universal decline and an increase in poverty. Although trade levels have dropped, China, which looks 30 years ahead compared to the west's four or five years, is still investing heavily. The Chinese government has responded to the recession by investing some of its \$2trn surplus on its own people and infrastructure such as new cities. Its demand for African raw materials may not fall as sharply as that of other importers. One South African iron ore company reported that its output went evenly to China and Europe until recently. Now 90 per cent goes to China.

While oil, the mainstay of eight African countries including Nigeria, is still unstable and producers will probably have to cope with lower prices, not all commodities have collapsed. Copper, Zambia's main export, fell from \$10,000 a tonne to less than \$3,000 this year, but has now recovered to about \$5,000. Cocoa, produced by Ghana and Côte d'Ivoire, has also remained buoyant, as has gold, a key export for South Africa.

Moreover, much of Africa lies outside the world market. Consequently, the price of food is determined by local weather conditions rather than

global economics. Until recently, most Africans relied on locally produced food, and even those who moved to towns could, during hard times, call on relatives back in the villages for supplies. As the urban-rural balance changes, this safety net will become less viable, but at present less than half of the people on the continent live in or around towns.

**S**o how will the recession affect the starving African children we see on the news and in appeals for aid? The answer is: probably not very much, unless western governments become too mean to fund the international aid agencies that keep them alive. Those children who are victims of drought are mostly far outside the world marketplace already. But most of them are victims of war, and therefore of Africa's poisoned politics, not global economic forces.

Much of what constitutes politics in Africa is the manoeuvring of small, capital-based elites within and between their ethnic or religious support bases. Most Africans play no part in their country's politics, apart from (if they are lucky) voting once every few years. But there is one group that governments have to take into account – the urban poor. These people are vulnerable to the smallest shifts in the cost of living and can take to the streets and cause headaches

for those in power. When politics breaks down, they provide the foot soldiers for Africa's wars. When prices of food and fuel shot up last year, riots broke out in several African cities.

In the longer term, the first of those two commodities – food – may prove critical to Africa's future. China dominates basic manufacturing globally, and the proportion of its population that works in factories is matched by the numbers of people in rural areas who are ready to come to town and take those jobs. There will be no space in the market for Africa to move from primary producer to manufacturer in the near future. At the same time, China is likely to experience a growing food deficit, as its urban workers seek a better diet. If China's demand for food imports pushes up prices, Africa could exploit its agricultural potential. With vast unused or underused land resources, it has the capacity to feed China as well as itself.

The global financial crisis seems likely to push Africa closer to China and other Asian countries, and away from its historical western partners. Already, African rulers are using their new-found friendship with China to resist western pressure on economic policies, as well as human rights and democracy. With the near-collapse of the western model in its own heartland, any minister or diplomat who lectures African governments over exchange controls, import restrictions or bank regulation will be laughed out of town. After the scandal over British MPs' expenses, any mention of corruption also stands to be mocked. Post-recession Africa, with its new partner, may be a very different place. ● *Richard Dowden is director of the Royal African Society and author of "Africa: Altered States, Ordinary Miracles", published by Portobello Books (£20)*  
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## A CONTINENT ON THE SLIDE... OR ON THE RISE?

**\$10.6bn**

value of China's trade with Africa in the year 2000

**\$106.8bn**

value of China's trade with Africa in 2008

**42%**

fall in Nigeria's share price index, 2008-2009

**\$602.6m**

Ghana's IMF loan – the largest to Africa during this crisis

**35%**

drop so far in 2009 in earnings from flower exports, Kenya

**10%**

likely fall in Uganda's export earnings, 2009

**\$1bn**

expected shortfall in Ethiopia's export revenues this year

**45%**

China-Africa trade growth, 2008-2009

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